

STATEMENT OF EWAN CLAGUE
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U.S. DEPARTMENT OF LABOR
BEFORE THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE OF
THE HOUSE OF REPRESENTATIVES ON FEDERAL
EMPLOYEE PAY LEGISLATION

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Mr. Chairman and Members of the Committee:

Your Committee has requested me to testify on the Consumer Price Index in relation to salaries of Federal employees. Before citing any figures, I would like to take a few minutes to outline just what the index is--and what it is not.

Stated briefly, the index is designed as a measure of the changes in the prices of goods and services purchased by wage and clerical employees in private industry and in government. The first step in the preparation of the index is a survey of the expenditures of the families of employees. The last survey of this kind was conducted in 1950-51, when the index was being revised. By visits to representative city families we obtain information on the ways in which each family spent its income over a period of a year. The results, when averaged for the nation as a whole, provide us with a list of the important items of expenditure--food, clothing, housing, transportation, etc. The list includes both goods (commodities) and services, such as medical care, reading and recreation, repairs and maintenance on a home, personal care, etc.

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We call this complete list a "market basket." The present list consists of about 300 different goods and services, which are selected to be representative of the thousands of different things which consumers buy. We do not consider it necessary to price everything. The ones we have selected are the important ones. Furthermore, as a result of the expenditure data, we are able to assign a weight or importance to each of these items in the average family's budget. For example, food as a whole has a weight or importance of nearly 29 percent; medical care, a little more than 5 percent; apparel, about 9 percent, etc.

Having obtained the list of items, we then go out into the stores and other establishments to get the prices. A few items, such as street car fares, gas and electricity rates, etc., we can collect by mail. Another group of items can sometimes be collected by telephone. However, in the main, we get the information by personal visit of our agents to the stores where the goods are bought. We collect this price information from 46 cities and towns throughout the United States. In the making of the index we process a total of over 150,000 prices every month.

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When the prices are collected we assign to each price the appropriate weight or importance in the total market basket, and then we add the whole combination together. That gives us a figure from which to start measuring the changes in prices. The next month we repeat this performance and get another figure exactly like the first, except for one difference, namely, the prices of various items have changed in the meantime and so this second month's compilation of prices comes out higher or lower than the first one's. If we designate the first month as an index of 100, which simply means we arbitrarily call it 100 percent, the results for the second month might be 101 or 99. In other words, in one case prices have risen one percent; in the other case, they have fallen one percent.

This explanation I have given is oversimplified, but it is basically correct. The base period we now use in the compilation of the index is the 36-month average of January 1947 through December 1949, as recommended by the Bureau of the Budget. We regard one month as too narrow a base. In fact, we regard even a 12-month average for one year as somewhat too narrow. The prewar base period which we formerly used for the index was the average for 5 years--1935-1939.

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So today, with the 1947-49 average being designated as 100, the index for recent months is a little higher than 125. This means that consumer prices have risen about 25 percent above the 1947-49 average.

Of course, not all prices have risen to the same degree; some have gone up much more than the average; others have gone up much less. In every single month we find some prices that have risen and some which have fallen. There is a great deal of movement of prices every month, even though the average for the whole group does not change very much.

I would like now to emphasize one point which is frequently misunderstood. An index such as I have described measures the change in prices of a fixed market basket of goods and services. It measures the effect of price changes on the cost of living of the average wage and clerical worker's family. It does not measure the total change in their cost of living. When the index was first developed back in World War I it was called the Cost of Living Index. However, this led to so much misunderstanding that in 1945 the name was changed.

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The reason for the misunderstanding is this. There are many factors in family living which can lead to a change in the cost of living. For example, if a new baby is born into the family, their cost of living will certainly increase, but it is not due to a rise in prices. Likewise, if the family decides to buy a car instead of using public transportation, their costs are likely to rise, but this is because their standard of living has risen. If people move from one city to another, they may find their living costs increased--in fact, they are quite likely to find it working out that way. But this is not necessarily due to a change in prices in either city. So, there are many factors which cause families to pay more to live the way they want to live. What our index does is to sort out one of these factors, namely, the rise, or fall, in the prices of the goods and services the average family buys.

With this brief, and perhaps inadequate, summary on the index and its meaning, I turn now to the recent behavior of the index. As you know, we released the March index to the public yesterday. The index reported was 125.7, which means that in March it was 25.7 percent above the 1947-49 average. I have been asked to report the change since June 1958, which was the date of

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the last Congressional action on Federal salaries. The index in that month was 123.7. So the increase since that time has been 2.0 points, or 1.6 percent.

I must make clear the difference between points of change and the percentage change. When we measure from the base of 100, the percents and the points are the same. However, when we start measuring from some other date, such as June 1958, that month becomes 100 for the percentage calculation, and so the points and the percents will differ. As you can readily see, one point in 125 is not 1 percent; it is 0.8 of 1 percent; and two points equal 1.6 percent.

I have brought with me the whole table of United States monthly indexes, so I can supply information on the changes which have taken place between any two dates in which you are interested. We also publish indexes for 20 large cities. The city indexes cannot be used to measure differences in price levels or in living costs between cities. They show only how prices in one city have changed over a period of time.

Wage Surveys

Your Committee has also asked me to explain the wage surveys which are now being conducted by the Bureau of Labor Statistics and which have been discussed earlier in these Committee hearings.

First of all, the Bureau for many years past has been making Community Wage Surveys. Through these surveys the Bureau has collected, analyzed, and published wage and salary information on some 60 occupations, both blue-collar and white-collar. These are cross-industry occupations which are found both in manufacturing and in many nonmanufacturing industries, such as public utilities, transportation, trade, finance, etc. In recent years, these surveys had been confined to about 20 of the largest metropolitan areas in the country.

Through the funds which were made available last year, the Bureau was enabled to expand these Community Wage Surveys to include in this fiscal year a total of 60 metropolitan areas--large, intermediate, and small. These 60 areas were chosen in such a way as to represent the entire 188 such areas in the United States. In the coming fiscal year, the Bureau will cover a total of 80 areas (the 60 areas studied this year plus 20 areas to be studied for the first time next year). These are the local surveys which are also

used by the Defense Department and other government agencies in fixing the wage rates of Federal blue-collar employees. This cooperative effort on the part of the government agencies makes it possible to use a single report from an employer to serve all these purposes. Only one visit is needed to each employer. This is economical to the government and advantageous to the cooperating employers.

The military establishment requires information on some additional occupations not included in the Bureau list, and our agents collect this information also. There is another important point in this cooperation. The Bureau, from time to time, is required to adjust the timing of its surveys in order to fit the needs of the Wage Boards. Thus, we may advance or postpone the timing of a survey in a given community in order to fit the needs of a Wage Board.

The Bureau plan for this fiscal year covers 9,500 establishments in the 60 areas which are being surveyed.

The additional funds for this survey became available only in September of last year. It required some time for the Bureau to recruit and train the field staff to do the work. Nevertheless, wage collection was completed in 15 cities by December. Preliminary results are now available on more than 30 cities, and collections

will be completed on all 60 by the end of this fiscal year. As each of these communities is completed, the results are published.

The Committee should note that Wage Board rates are established on a local area basis, so that as each community is completed the wage decisions can be made.

When our tabulations and analyses are completed, we shall have detailed wage information on the 60 occupations in each of the 60 areas, as well as for the nation as a whole, and for four broad regions. The nationwide averages for these blue-collar and clerical jobs will be available some time in the fall.

So much for the wage surveys of blue-collar and clerical occupations. Much of the discussion before this Committee has focused upon another survey which was added on top of the above program. This is a nationwide survey of pay rates for professional and managerial personnel. This involves occupations such as managers, supervisors, auditors and accountants, engineers, scientists, personnel directors, etc. Within most of these occupations separate information will be obtained for a number of work level classifications. This is a survey of jobs in private industry, designed to be comparable to Federal classification grades 5 through 15.

The need for a salary survey in industry covering the range of Federal positions under the Classification Act has been recognized

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for several years in the Executive Branch. An interdepartmental work group of technicians was established in May 1958 to develop a design for such a study. Reflecting the joint work of the Bureau of the Budget, Civil Service Commission, Office of the Special Assistant to the President for Personnel Management, and the Bureau of Labor Statistics, an initial survey plan was pre-tested by the Bureau of Labor Statistics in late 1958 and early 1959. The special work group filed a final report on the survey design with the Bureau of the Budget in April 1959. The Bureau's ability to undertake this survey was dependent on the appropriation which became available in September of 1959. Collection of information began in January of this year, as soon as experienced staff became available and preparatory work, including special staff training, was completed.

For this survey, the Bureau expects to cover 1,400 establishments in 60 areas. These 1,400 are a subsample of the 9,500 that will be covered in the basic survey. Salary survey reports have been completed for nearly 1,100 establishments, and the remaining 300 will be completed in May. This is the survey on which we promised a report to the Bureau of the Budget by next September.

The Committee should note that this type of salary information will not be available on a city-by-city basis, but only for the nation as a whole.

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This was an especially difficult survey to make. In the first place, it was new for the employers who have been accustomed to reporting to the Bureau, for years past, on blue-collar wages and clerical white-collar wages. They had not had the experience of reporting on these higher-grade supervisory and professional classifications.

In the second place, these salaries are a sensitive subject in many business firms. Generally, these salaries are on separate payrolls maintained in a different part of the organization. Frequently it was necessary for the Bureau agents to establish contact with top management in the firms in order to obtain the voluntary cooperation that was needed. Special problems were introduced by the collection of information on bonus pay for professional and managerial positions.

Even after voluntary cooperation of firms has been obtained, it is a time-consuming and technically difficult job to match the job descriptions, developed for use in the survey, with the duties and responsibilities of positions in industry.

Despite all these difficulties, the survey is on schedule and we expect to complete our work in the time that we originally planned. Furthermore, the experience gained in this survey will make it possible to institute improvements in future surveys of this kind.